

Message Text

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FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC PRIORITY 8503
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C O N F I D E N T I A L SAN JOSE 3877

E.O. 11652: GDS
TAGS: EFIN CS
SUBJ: REQUEST FOR EXIMBANK'S PRELIMINARY COMMITMENT: POLYSTYRENE
PLANT

REF: STATE 187271

BEGIN UNCLASSIFIED

1. EMBASSY WAS ONLY ABLE TO DISCUSS THE POLYSTYRENE PROJECT
AUGUST 19 WITH HANS BUCHER, PRESIDENT OF CONSORCIO DE CONSULTROES,
SA AND PRINCIPAL PROMOTER OF THE PROJECT BECAUSE HE HAD BEEN ILL
FOR TWO WEEKS. BUCHER POINTED OUT THAT THE PLANS TO CARRY OUT THE
PROJECT WERE STILL LARGELY IN THE FORMATIVE STAGE AND SUBJECT TO
CHANGE.

2. INFORMATION ON THE PRINCIPALS:
A. BUCHER STATED HE WAS CHEMICAL ENGINEER, AND HAD WORKED FOR 13
YEARS AS GENERAL MANAGER FOR EXXON FOR CENTRAL AMERICA AND MEXICO.
IN 1975 HE WAS HIRED BY UNITED BRANDS (THROUGH FOSTER GRANT) TO
INSTALL A POLYSTYRENE PLANT IN SANTA CRUZ, RIO MINAIS, BRAZIL, IN
A JOINT PROJECT WITH PETRO QUISA, A DIVISION OF PETRO BRAZIL. THE
PLANT WAS SUBSEQUENTLY SOLD TO AND WAS OPERATED BY THE GERMAN FIRM
BASF. HE WORKED FOR UNITED BRANDS IN MARKETING AND MANAGEMENT
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POSITIONS IN 1976 WHEN HE LEFT THE COMPANY. HE WAS HIRED BY DEMASA,
A LOCAL COMPANY WHICH HAS BEEN VERY SUCCESSFUL IN PRODUCING AND
MARKETING AN INSTANT TORTILLA UNDER THE BRAND NAME TORTIRICAS.
B. CORPORACION COSTARRICENSE DE DESARROLLO, CODESA, WAS FOUNDED
IN 1972 AS A MIXED PUBLIC/PRIVATE ORGANIZATION TO INITIATE LARGE,
COMMERCIAL, DEVELOPMENT-ORIENTED PROJECTS WHICH WOULD ULTIMATELY
(WHEN FULLY OPERATIONAL AND ESTABLISHED) BE SOLD TO THE PRIVATE

SECTOR. IN 1976, PRESIDENT ODUBER DISMISSED THE PRIVATE MEMBERS OF THE BOARD OF DIRECTORS. THE PRESIDENT WAS QUOTED IN THE PRESS THAT CODESA WAS NOT CARRYING OUT THE TYPE OF DEVELOPMENT PROJECTS FOR WHICH IT WAS INTENDED WITH SUFFICIENT RAPIDITY. AMONG THE PROJECTS INITIATED BY CODESA ARE A SUGAR MILL, A CEMENT PLANT, THE NATIONAL STOCK EXCHANGE, A TOURIST COMPLEX ON THE PACIFIC, A PLANT TO FABRICATE FINISHED ALUMINIUM ARTICLES, AND A SULFUR EXTRACTION PLANT (JOINTLY WITH FERTICA). A PROPOSED LAW TO INCREASE CODESA'S AUTHORIZED CAPITAL FROM 100 MILLION COLONES (APPROXIMATELY \$11.7 MILLION TO 500 MILLION COLONES (APPROXIMATELY \$59.2 MILLION) AND TO FORMALLY PROVIDE THE GOVERNMENT WITH A MAJORITY ON THE BOARD OF DIRECTORS (WHICH IT NOW HAS, DE FACTO) HAS NOT BEEN ACTED ON BY THE NATIONAL ASSEMBLY.

C. REFINERIA COSTARRICENSE DE PETROLEO (RECOPE) IS THE ONLY PETROLEUM REFINERY IN COSTA RICA. IT IS GOVERNMENT-OWNED BUT ORGANIZED AS A PRIVATE COMPANY. IN SEPTEMBER, 1975, PURSUANT TO AN EXECUTIVE DECREE, RECOPE PURCHASED THE PETROLEUM DISTRIBUTION FACILITIES FROM THE EXISTING OWNERS WITH THE EXCEPTION OF TEXACO'S FACILITIES (SAN JOSE 2777, 2800).

3. ACCORDING TO BUCHER, THE POLYSTYRENE PLANT WOULD COST A TOTAL OF SIX MILLION DOLLARS, AND BE CAPITALIZED AT APPROXIMATELY 15 PERCENT OF THIS FIGURE. CODESA, WHICH PRESENTLY HAS THE PROJECT UNDER STUDY, WOULD OWN 60 PERCENT, RECOPE MIGHT TAKE 20 PERCENT AND CORSOCIO DE CONSULTORES WOULD TAKE THE RAMAINDER. THE REASON GIVEN BY BUCHER FOR RECOPE'S PARTICIPATION WAS THE GOCR'S INTEREST

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IN HAVING THAT ENTITY INVOLVED IN PETROLEUM-RELATED INDUSTRIES.

4. BUCHER INDICATED THE PLANT'S PRODUCTION WOULD BE DESTINED TO THE OTHER COUNTRIES OF THE CENTRAL AMERICAN COMMON MARKET (CACM) (60 PERCENT) AS WELL AS COSTA RICA (40 PERCENT). HE ESTIMATES THE MARKET FOR POLYSTYRENE FOR THE CACM AT 14 MILLION POUNDS. COSTA RICAN IMPORT STATISTICS ARE NOT SUFFICIENTLY DETAILED TO PROVIDE THE AMOUNT OF POLYSTYRENE IMPORTED. SOME LOCAL PLASTICS INDUSTRY SOURCES ESTIMATE A COSTA RICAN DEMAND OF ROUGHLY BETWEEN 400,000 AND 600,000-POUNDS A MONTH. HOWEVER, HQ LOCAL AGENT/DISTRIBUTOR ESTIMATED COSTA RICAN DEMAND FOR POLYSTYRENE AT 800,000 POUNDS PER MONTH.

5. BUCHER ALSO CLAIMED THAT GERMAN FINANCING WAS AVAILABLE FOR THE ENTIRE COST OF THE PROJECT AT 7 1/4 PERCENT INTEREST, 7 YEAR TERMS, 2 YEARS GRACE, WITH A 1/4 PERCENT COMMISSION. HE INDICATED THAT CODESA, IF IT BACKED THE PROJECT, WOULD PROVIDE THE GUARANTEE FOR THE LOAN.

6. BUCHER STATED THAT JAVIER GONZALEZ, A YOUNG CHEMICAL ENGINEER AND A GRADUATE OF GEORGIA TECH, WOULD BE RESPONSIBLE FOR THE MANAGEMENT OF THE PLANT. COMPOSITION OF THE BOARD OF DIRECTORS

HAS NOT BEEN DECIDED.

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7. EMBASSY COMMENTS: BUCHER ADVISED, IN STRICTEST CONFIDENCE, THAT HIS TWO SILENT PARTNERS IN CONSOLCIO DE CONSULTORES, SA WERE JORGE SANCHEZ MENDEZ, FORMER MINISTER OF ECONOMY, INDUSTRY AND COMMERCE WHO RESIGNED SEVERAL MONTHS AGO AND HAS BEEN MENTIONED AS A POSSIBLE CANDIDATE FOR THE NATIONAL ASSEMBLY FROM THE RULING NATIONAL LIBERATION PARTY; AND ENRIQUE GONZALEZ, DIRECTOR OF THE COSTA RICAN EXPORT AND INVESTMENT PROMOTION CENTER AND OLDER BROTHER OF JAVIER GONZALES THE PROPOSED PLANT MANAGER. IF THIS IS TRUE, AND
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CODESA DECIDES TO BACK THE PROJECT, IT CAN BE PRESUMED TO HAVE THE SUPPORT OF THE EXISTING GOVERNMENT. HOWEVER, AS NOTED IN THE EMBASSY'S COMMENT ON THE CATSA CASE (SAN JOSE 2822) IT IS NOT POSSIBLE TO SAY WHAT ATTITUDE THE NEW GOVERNMENT THAT EMERGES FROM THE FEBRUARY 1978 ELECTIONS WOULD TAKE TOWARDS THIS PROJECT.

8. SHOULD RECOPE TAKE AN ACTIVE ROLE IN THIS PROJECT, GASTON EXIMBANK SHOULD BE AWARE THAT THE COMPANY'S PRESIDENT, GASTON KOGAN, DOES NOT ENJOY A REPUTATION FOR INTEGRITY AND HONESTY IN THE LOCAL BUSINESS COMMUNITY.

9. THE EMBASSY CONCURS THAT GUARANTEE FROM EITHER MINISTRY OF FINANCE OR FROM NATIONAL BANKING SYSTEM, APPROVED BY CENTRAL BANK, BE REQUIREMENT FOR LOAN APPROVAL. GIVEN THE NUMBER AND SIZE OF THE PROJECTS BEING UNDERTAKEN BY CODESA -- THE CEMENT PLANT ALONE IS ESTIMATED TO COST APPROXIMATELY 56 MILLION DOLLARS -- GUARANTEE BY CODESA WOULD NOT SIGNIFICANTLY DIMINISH LENDER'S RISK FOR POLYSTYRENE PROJECT.
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